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Message Text

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ACTION SS-15

INFO OCT-01 IO-13 AID-05 CIAE-00 COME-00 EB-08 FRB-03
INR-10 NSAE-00 ICA-11 TRSE-00 XMB-02 OPIC-03
SP-02 LAB-04 SIL-01 OMB-01 NSC-05 STR-07 CEA-01
L-03 H-01 AGRE-00 OIC-02 AF-10 ARA-10 EA-10
EUR-12 NEA-11 ISO-00 SSO-00 /151 W
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R 221155Z MAY 78
FM AMEMBASSY KHARTOUM
TO SECSTATE WASHDC 7414
INFO AMEMBASSY BONN
AMEMBASSY LONDON
AMEMBASSY PARIS
USMISSION GENEVA
AMEMBASSY NAIROBI

C O N F I D E N T I A L SECTION 1 OF 3 KHARTOUM 2302

OECD PASS WENDT

DEPT PASS TREASURY, JUNZ, NSC, ERB

TO COOPER AND KATZ FROM HORMANTS

NAIROBI FOR HORMATS

E.O. 11652: GDS
TAGS: EFIN, EAID
SUBJECT: GENEVA INFORMAL MEETING ON COMMON FUND

SUMMARY: GENEVA MEETING REVEALED CONVERGENCE IN A FEW AREAS (NOTABLY CONTRIBUTIONS TO FIRST WINDOW THROUGH ICAS), CONSIDERABLE IMPRECISION IN MANY OTHERS (REASONS FOR PROPOSED FOUNDATION, CAPITAL OF $500 MILLION, ROLE OF SECOND WINDOW), AND FUNDAMENTAL DIFFERENCES (FINANCING OF STOCKS NOT PART OF ICAS, 25/75 RATIO). G-77 REPS RELATIVELY CONFIDENTIAL

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RELAXED ABOUT DIFFERENCES, BUT HELD FIRM ON KEY POINTS, AND EXPRESSED WILLINGNESS TO CONSIDER SOME MODIFICATION AT MARGINS ONLY.MAJOR GROUP B COUNTRIES (U.S., JAPAN, FRG AND U.K.) WERE UNWILLING OR UNABLE TO COMMIT TO FOUNDATION CAPITAL, BUT SLIPPAGE ON THE PART OF UK IS CONCEIVABLE. NONE ARE ENTHUSIASTIC ABOUT SECOND WINDOW, BUT THERE APPEARS TO BE GROWING RESIGNATION TO ITS INEVITABILITY AND DESIRE TO CIRCUMSCRIBE

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ITS ROLE AS PRECONDITION TO FINAL, MODEST, SUPPORT. MEETING CONCLUDED THAT ANOTHER REVISION OF PAPER NEEDED, AS WELL AS ANOTHER INFORMAL MEETING, BEFORE DECISION COULD BE MADE AS TO WHETHER BASIS EXISTS FOR RESUMING NEGOTIATIONS. END SUMMARY

1. SESSION BEGAN WITH COREA REPORTING ON CONSULTATION WITH GOVERNMENTS AND BANKERS IN SEARCH FOR ANSWER TO QUESTION WHETHER BASIS EXISTS TO RESUME NEGOTIATIONS. HE DETECTED ACCEPTANCE OF IDEA OF SECOND WINDOW (WITH EXPLICIT EXCEPTION OF U.S.) AND WILLINGNESS TO CONSIDER POSSIBILITY OF DIRECT CONTRIBUTIONS FOR LIMITED, WELL-DEFINED PURPOSE. HE ALSO URGED GOVERNMENTS TO CONSIDER LOWER PAID-IN (LESS THAN) 75 PERCENT BY ICAS IN ORDER TO RELIEVE GOVERNMENTS OF OBLIGATION OF COMING UP WITH CASH AND TO GIVE CF MORE THAN A SECONDARY ROLE TO FULFILL.

2. DISCUSS WITH BANKERS ENCOURAGED COREA THAT $6 BILLION CF COULD ENJOY CONFIDENCE OF MONEY MARKETS IF MEMBERS PLEDGED SUFFICIENT CALLABLE CAPITAL DIRECTLY TO CF, WITH BACKUP BY STOCK WARRANTS TRANSFERRED BY ICAS TO CF. CALLABLE DIRECTLY PUT INTO CF WAS THE ESSENTIAL FACTOR IN DEMONSTRATING SOUNDNESS OF C.F., BUT HAD TO BE HELD DIRECTLY BY CF. THIS CALLABLE, PLUS SUPPORT OF LARGE NUMBER OF MAJOR GOVERNMENT, AND SOUND FINANCIAL POLICIES OF CR WOULD ENSURE WORTHINESS. ALSO, FOUNDATION CAPITAL WAS CONSIDERED BY BANKERS TO BE A "VERY POSITIVE FEATURE." 10 PERCENT OF CONFIDENTIAL

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TOTAL CF VALUE WOULD, IN COREA'S VIEW, ENHANCE THE CREDIBILITY OF CF IN MONEY MARKETS, AND STRENGTHEN ITS IMAGE.

3. AFTER FEW MINUTES OF AIMLESS DISCUSSION, MOST MEMORABLE FOR COREA'S DEFT RESPONSE TO MULIRO'S QUESTION AS TO WHETHER THE SECOND WINDOW COULD ALSO BORROW (ANSWER: COUNTRIES COULD LEND TO IT IF THEY WISHED), ALATAS POSED THREE QUESTIONS: ARE WE WITHIN "STRIKING DISTANCE" OF ONE ANOTHER ON MAJOR ISSUES? CAN WE AND SHOULD WE CONCLUDE THAT WE ARE CLOSE ENOUGH TO SAY THAT BASIS EXISTS FOR RECONVENING NEGOTIATING CONFERENCE? IF SO, HOW SHOULD WE PREPARE AND WHEN SHOULD WE HAVE THE CONFERENCE? ALATAS SUGGESTED THAT GROUP FOCUS ON THESE POINTS, NOT COVER OLD GROUND AND DIG UP OLD ARGUMENTS.

4. UNEASINESS OF GROUP WITH TACKLING THESE QUESTIONS HEAD-ON WAS REFLECTED IN SERIES OF VERY SPECIFIC QUESTIONS DIRECTED AT COREA FOCUSING ON UNCTAD SECRETARIAT PAPER. HILTON (CANADA) AND SAWAKI (JAPAN) QUESTIONED JUSTIFICATION OF $6 BILLION FUND, AND ASKED HOW MANY ICAS LIKELY TO JOIN AND WHETHER EXISTING AREAS LIKELY TO RESTRUCTURE THEMSELVES TO ACCOMMODATE FUND. I QUESTIONED BREADTH OF SCOPE ENVISATED

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IN OBJECTIVES SECTION OF PAPER AND DESIRABILITY OF CP FINANCING NATIONAL STOCKS NOT PART OF ICAS. COREA REPORTED REASONS FOR $6 BILLION FUND, INDICATING THAT IT REFLECTED SECRETARIAT VIEW OF LIKELY BUFFER STOCK REQUIREMENTS, ALTHOUGH ICAS FREE TO JOIN OR NOT AS THEY SAW FIT. ALATAS INDICATED OBJECTIVES WERE AS IN RES 93(IV). COREA DEFENDED IDEA OF FINANCING NON-ICA HAS MERELY RETENTION OF FLEXIBILITY IN ORDER NOT TO PRECLUDE POSSIBILITY OF SUCH FINANCING IN EMERGENCIES.

NOTE BY OC/T: NOT PASSED JUNZ AND ERB.

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AMEMBASSY PARIS
US MISSION GENEVA 314
AMEMBASSY NAIROBI

C O N F I D E N T I A L SECTION 2 OF 3 KHARTOUM 2302

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5. STEELE (UK) SAW PAPER AS "CONSIDERABLE STEP IN RIGHT DIRECTION." HE QUESTIONED, HOWEVER, 25/75 PAID IN/CALLABLE RATIO, BECAUSE COST TO ICA OF SERVICING LARGE PORTION OF CALLABLE WOULD FORCE IT TO MAKE LARGE PROFIT, REQUIRING IT TO BUY TOO LOW AND SELL TOO HIGH THUS BECOMING MORE OF

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A SPECULATOR THAN A MARKET STABILIZER (THE LATTER WOULD
PRESUMABLY STEP IN EARLIER TO PREVENT PRICES FROM EXTREME
VOLATILITY). HE ALSO INDICATED INTEREST PAYMENT ON THIS
PERCENTAGE WOULD BE DIFFICULT FOR ICA TO PAY BACK TO CF.
AT FREQUENT INTERVALS IF STOCKS HAD TO BE HELD FOR SUSTAINED
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PERIOD. STEEL AGREED ON TWO OF THREE REASONS FOR DIRECT
CONTRIBUTION TO FIRST WINDOW -- PARA 11 (I AND III) --
BUT SUGGESTED THAT A PORTION OF THE TOTAL COULD BE PAID IN AS
EACH ICA JOINS CF, AND QUESTIONED PRECISELY HOW PAID
IN WAS TO BE USED (E.G. WAS IT TO BE LENT TO ICAS OR
INVESTED WITH INTEREST USED TO SUBSIDIZE INTEREST
CHARGED BY CF ON LOANS TO ICA. COREA REPLIED THAT AMOUNT
OF INTEREST PAYMENT WOULD BE BUILT INTO IN INDIVIDUAL
ICAS INTERVENTION POLICY. HE ACCEPTED MOTION THAT
HIGHER THE COST, BIGGER THE PRICE RANGE. IF, HOWEVER, CF
NEEDED PAYMENT EVERY MONTH, PERHAPS GOVERNMENTS COULD
PROVIDE IT, BUT RECOUP AMOUNT WHEN STOCKS SOLD BY ICA.

6. DISCUSSION THEN SHIFTED TO $500 MILLION PAID IN
DIRECTLY TO CF, WITH ALATAS DEFENDING THIS AS REDUCING
AMOUNT ICAS WOULD NEED TO PAY IN WHEN THEY JOINED. THIS,
HE ARGUED, WAS ESPECIALLY GOOD FOR LDCS, BUT GOOD FOR DCS
AS WELL. HOST OF QUESTIONS FOLLOWED AS TO PRECISE USE OF
$500 MILLION, HOW IT WOULD BE PROVIDED (ALL AT ONCE OR
IN STAGES) AND BY WHOM. COREA DEFENDED IT AS NEEDED TO
ATTRACT ICAS TO CF BY GIVING THEM BETTER TERMS THAN BANKS,
PROVIDING BETTER MARKET IMAGE AND GIVING THE CF CREDIBILITY
AT THE START. HE OPINED THAT PERHAPS IT COULD BE PROVIDED
IN STAGES AND CALLED AS NEEDED. THE ASSAULT ON THE $500
MILLION FIGURE CONTINUED WITH QUESTION AS TO WHETHER
THIS COULD BE PROVIDED AS PART OF MFR, WHETHER THERE WAS A
TRADEOFF BETWEEN $500 MILLION AND THE 25/75 RATION, AND HOW
PRECISELY THESE FUNDS WOULD BE USED. COREA STRESSED THAT
THIS AMOUNT NEEDED TO MAKE CF ATTRACTIVE TO MARKET AND TO
ICAS AND NECESSARY IF CF TO BORROW 75 PERCENT OF NEEDS ON
CAPITAL MARKETS. IT WAS ALSO NEEDED TO MAKE CF
IMPRESSIVE. HE REPORTED POSSIBILITY OF PACED PAYMENT,
AS NEEDED EITHER FOR DIRECT LENDING TO ICAS OR FOR
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HELPING CF TO BORROW. COREA DREW THIS PART OF DISCUSSION
TO CLOSE BY INDICATING THAT CF WILL LEND 75 PERCENT, BUT
NEED NOT BE COMPELLED TO BORROW 75 PERCENT.

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7. HUSLID (NORWAY) INDICATED THAT SECRETARIAT PAPER WAS GOOD BALANCE BETWEEN G-77 AND GROUP B. CF HAD TO BE BUILT AROUND THESE IDEAS. KLINKENBERGH (NETHERLANDS) FOLLOWED BY INDICATING THE MANY PARAGRAPHS IN PAPER HE BELIEVED REFLECTED BROAD AGREEMENT -- INCLUDING SEVERAL WHICH HAD BEEN THE SUBJECT OF SHARP DEBATE (NOTABLY 25/75 RATIO). OTHERS QUESTIONED HIS INTERPRETATION OF DEGREE OF AGREEMENT. (COREA THEN EXPLAINED AGAIN THAT 25 PERCENT WAS TO KEEP ICA PAID IN AT MINIMUM, AS WAS $500 MILLION BURDEN) (FROMENT-MEURICE AND I INTERJECTED THAT $500 MILLION WAS NOT RELIEF BUT A SHIFT OF BURDEN FROM LDCS TO DCS THROUGH ANOTHER ROUTE). MACIEL (BRAZIL) THEN OPINED THAT BOTH 25 PERCENT AND 75 PERCENT SHOULD BE PAID DIRECTLY INTO CF. THIS WAS SECONDED BY ALATAS. COREA DID NOT RESPOND, BUT REPORTED REASONS FOR HIS POSITION AND CONCEPT OF PHASED CONTRIBUTIONS OF THE $500 MILLION, WHICH COULD BE PAID IN AS NEEDED, AND ASSESSED ACCORDING TO UN FORMULA. ALATAS DEFENDED $500 MILLION FOUNDATION CAPITAL AS REQUIRED BY BSNKERS IF CF TO BORROW EFFECTIVELY AND AS PARTOF NEED TO SHARE RESPONSIBILITY FOR CF. COREA AND PG THEN REFERRED TO THEME THAT $500 WAS NECESSARY TO ENHANCE ATTRACTIVENESS OF CF AND NOT LEAVE IT "PITIFULLY EMPTY."

NOTE BY OC/T: NOT PASSED JUNZ AND ERB.

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8. I AGAIN PROBED NECESSITY FOR FOUNDATION CAPITAL WHICH, ALTHOUGH DOUBTLESS "DESIRABLE" COULD MAKE SUPPORT OF CF DIFFICULT FOR SOME COUNTRIES INCLUDING, AND MOST PARTICULARLY THE U.S. COREA, I SUGGESTED, MIGHT REVIEW NEED FOR THIS IN LIGHT OF SERIOUS DIFFICULTIES IT INVOLVED, AND INDEED WHETHER BANKERS WERE NOT BEING A BIT OVERLY CONSERVATIVE IN ASKING FOR THIS. IN FACT, GROUP B SCHEME WOULD AMPLY EQUIP CF WITH FUNDS PAID IN BY ICAS, WHICH WOULD ENHANCE ITS CREDIT WORTHINESS AND MAKE IT EASIER FOR MANY NATIONS, INCLUDING U.S., TO PARTICIPATE IN. COREA AGREED THAT GROUP B CONFIDENTIAL

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SCHEME WAS CREDITWORTHY BUT WAS UNATTRACTIVE TO ICAS, AND PROVIDED LITTLE REAL ROLE FOR CF.

9. FOLLOWING DINNER COREA SUMMED UP DISCUSSION, AND HIS POSITION STRESSING THAT PAPER HAS STRUCK COMPROMISE BETWEEN GROUP B AND G-77 BY REDUCING DIRECT CONTRIBUTIONS FROM $1 BIL-LION TO $500 MILLION, CHANNELING CONTRIBUTIONS THROUGH ICAS AND REDUCING PAID IN. ACCEPTANCE OF GROUP B SCHEME WOULD LEAVE CF WITH ONLY SECONDARY ROLE AND MAKE IT "PATHETICALLY" DEPENDENT ON ICAS. IN ANY CASE, THE BANKERS FELT THE NEW UNCTAD CF WAS GOOD SCHEME, AND ESPECIALLY WANTED CALLABLE ASSIGNED DIRECTLY TO CF, RATHER THAN PUT IN AND TAKEN OUT FROM TIME TO TIME AND BE ONE STEP REMOVED FROM A CALL BY THE FUND. IT SHOULD BE A PART OF THE FUND'S PORTFOLIO.

10. DUTHIE (XAUSTRALIA) INDICATED SUPPORT FOR A CF WHICH STOOD ON MIDDLE GROUND. HE COULD SUPPORT DIRECT CONTRI-BUTIONS, BUT NOT OPEN ENDED LENDING TO NON-ICA BUFFER STOCKS. HE FELT 25 PERCENT PAID IN WAS TOO HPUH. THIS WAS IN HIS VIEW A BUILT IN REASON FOR CONSUMERS NOT TO AGREE TO AN ICA. HILTON (CANADA) OPINED THAT FOUNDATION CAPITAL WAR NOT NECESSARY AND WOULD FALL ON CERTAIN NUMBER OF COUNTRIES. DUTIE THEN STRESSED IMPORTANCE OF G-77 UNDERSTANDING VIEWS OF MAJOR DEVELOPED COUNTRIES TO OVERALL APPROACH, SINCE THEY HOLD THE KEY FACTORS IN ITS ACCEPTANCE. I SEIZED OPPORTUNITY TO REPEAT IMPOSSIBILITY OF EXPLAINING REASON FOR FOUNDATION CAPITAL WITHOUT MORE INFORMATION AS TO ITS SPECIFIC USES, THE NECESSITY FOR IT, AND HOW IT WOULD BE PAID IN. BEYOND THIS,

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THE 25/75 SPLIT WATERED DOWN THE CONCEPT OF CONSUMER/PRODUCER RESPONSIBILITY BECAUSE POORLY THOUGHT OUT ICA WOULD BORROWN 75 PERCENT OF MCR AND PAY IN ONLY 25 PERCENT, AND THE RISK TO MAKE GOOD ON CALLABLE WOULD BE ASSUMED NOT BY THE ICA ALTNE
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BUT SPREAD AMONG ALL COUNTRIES WHICH HAD MADE CALLABLE CAPITAL AVAILABLE TO CF. IN SHORT, ICA MEMBERS WOULD BEAR TOO SMALL A PERCENTAGE OF THE RESPONSIBILITY FOR CREATING AND SUCCESSFULLY RUNNING AN ICA. THE 25/75 RATIO AND POOLING OF CALLABLE, WERE DISCUSSED AT SOME LENGTH, WITH MATTAR AND COREA AGAIN DEFENDING SMALL PAID IN AND DIRECT POOLING OF CALLABLE. WHILE THEY HELD FIRM ON 25/75 THEY APPEARED WILLING TO CONSIDER PRO-POSITION THAT IF AN ICA DEFAULT TO CF RISKED CF DEFAULT TO BANKS, THE ICA RESPONSIBLE SHOULD MAKE GOOD ON ITS CALLABLE RATHER THAN ALL PROVIDERS OF CALLABLE TO CF HAVING TO CONTRIBUTE. STEELE SUPPORTED VIEW THAT 25 PERCENT TOO LOW, AND DUTHIE THE VIEW THAT ALL CONTRIBUTORS OF CAPITAL SHOULD NOT SHARE COST OF THE DIFFICULTIES OF ONE ICA.

11. FROMENT-MEURICE SAID FROM CONVERSATION HE CONCLUDED THAT THERE COULD BE NO AGREEMENT ON A CF WITHOUT DIRECT FOUNDATION CONTRIBUTIONS, BUT THAT HIS GOVT HAD NOT YET DECIDED ON DIRECT CONTRIBUTIONS EXCEPT FOR ADMINISTRATION EXPENSES. HE WOULD, HOWEVER, CONVEY HIS CONCLUSIONS TO PARIS ALONG WITH THE VIEW THAT DIRECT CONTRIBUTIONS WOULD BE JUSTIFIABLE MORE FOR POLITICAL REASONS THAN ON THE BASIS OF ECONOMIC NEEDS, BECAUSE A CF WITHOUT SUCH A CONTRIBUTION WAS, IN HIS VIEW, STILL VIABLE. HE ALSO ASKED FOR GREATER SPECIFITY ABOUT NUMBER OF ICAS WHICH MIGHT JOIN CF, AND THE REASON FOR 25/75 RATIO, WHICH, IN FRENCH VIEW, WAS TOO LOW. HE ACCEPTED VIEW THAT CALLABLE COULD BE PROVIDED DIRECTLY TO ICAS, BUT CAUTIONED COREA NOT TO MINIMIZE DIFFICULTIES OF SOME GOVERNMENTS WITH THE CONCEPT.

12. MUELLER-THUNS SAID HE DID NOT SEE NEED FOR DIRECT CONTRIBUTIONS OR HOW IT WAS CONSISTENT WITH THE PROPOSAL OF THE BANKERS. HE ALSO SAW 25 PERCENT AS TOO LOW AND INCONSISTENT WITH CONSUMERS/PRODUCERS RESPONSIBILITY. HE COULD NOT COMMENT ON DIRECT CONTRIBUTIONS OF CALLABLE TO CF BECAUSE IT WAS UNEXPECTED SUGGESTION, AND HE NEEDED MORE INFORMATION ON VOTING FKEIMANAGEMENT.
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13. MATTAR ASKED IF U.S. COULD ACCEPT FOUNDATION CAPITAL.

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I INDICATED THAT CASE HAD NOT BEEN MUCH FOR IT. FOR A NUMBER OF REASONS THIS WOULD BE DIFFICULT OF NOT IMPOSSIBLE FOR US, BUT THAT WE COULD NOT DECIDE UNTIL WE KNOW MORE OF THE SPECIFICS REGARDING USE, NEED AND FORM OF PAYMENT. WE WOULD, FOR INSTANCE, LIKE TO KNOW WHAT COREA HAD IN MIND BY SUGGESTING THAT IT MIGHT CONSTITUTE A LOSS RESERVE FUND OR EXCHANGE GUARANTEE FUND.

14. THE MEETING ENDED AT 11:30 P.M. WITH AGREEMENT TO DISCUSS OTHER MEASURES THE NEXT MORNING. SEPTEL ON THIS TO FOLLOW. BTGOSIAN

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 jan 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: MEETINGS, FINANCIAL CONTRIBUTIONS, APPROPRIATIONS
Control Number: n/a
Copy: SINGLE
Draft Date: 22 may 1978
Decaption Date: 01 jan 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 20 Mar 2014
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1978KHARTO02302
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: GS
Errors: N/A
Expiration:
Film Number: D780215-0677
Format: TEL
From: KHARTOUM
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1978/newtext/t19780534/aaaabcix.tel
Line Count: 399
Litigation Code IDs:
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Litigation History:
Locator: TEXT ON-LINE, ON MICROFILM
Message ID: a8bf8a99-c288-dd11-92da-001cc4696bcc
Office: ACTION SS
Original Classification: CONFIDENTIAL
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 8
Previous Channel Indicators: n/a
Previous Classification: CONFIDENTIAL
Previous Handling Restrictions: n/a
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Retention: 0
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Review Event:
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Review Media Identifier:
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
SAS ID: 2618521
Secure: OPEN
Status: NATIVE
Subject: GENEVA INFORMAL MEETING ON COMMON FUND SUMMARY: GENEVA MEETING REVEALED CONVERGENCE IN A FEW AREAS (NOTABLY CONTRIBUTIONS TO FIRST WINDOW THROU
TAGS: EFIN, EAID, ECON, G-77, UNCTAD
To: STATE
Type: TE
vdkvgwkey: odbc://SAS/SAS.dbo.SAS_Docs/a8bf8a99-c288-dd11-92da-001cc4696bcc
Review Markings:
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